

POSTSOCIALIST PATHWAYS

*Transforming Politics
and Property
in East Central Europe*

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INTRODUCTION

SIMULTANEITY

Can the transformation of property regimes and the extension of citizenship rights be achieved simultaneously? This is the postsocialist challenge. Can the governments of postsocialist Eastern Europe successfully pursue economic reform when the citizens who bear its costs acquire the means to replace political incumbents and choose among competing political programs? This is the postsocialist experiment. The concurrent transformation of property and politics in postcommunist societies is occurring, moreover, in the context of a contracting world economy, thereby dramatically increasing the social burdens caused by economic restructuring. The simultaneous emergence of newly propertied classes and newly enfranchised subordinate groups poses the central postsocialist problem of how to restructure economies when those who perceive their interests to be threatened by economic change have the capacity to block the implementation and consolidation of reforms.

The twinned expansion of property rights and citizenship rights requires a twinned scholarship. This volume presents the results of our collaborative efforts, as an American economic sociologist and a Hungarian political scientist, to study the dual transformations of the polities and economies of Eastern Europe, not simply as parallel but also as interacting processes.

The more systematically we examined the ways in which the various East Central European societies are struggling with the dilemmas posed by the simultaneous attempts to transform politics and property, the more we

became aware of the rich organizational innovations that are taking place in postsocialism. Told by many that their best strategy was to imitate the tried and proven institutions of Western Europe and North America, the political and economic actors of postsocialism faced distinctive challenges that made it impossible simply to imitate - even where their initial self-conceptions were not as innovators. "Instant," "Xerox," or "copycat" capitalism was not a possibility, if for no other reason than that the institutions for transforming property regimes could not be identical to those of already established orders. Told by some that their best strategy was to choose between democratization and marketization — that they could do one or the other but not both - the politicians and publics of East Central Europe rejected the idea that the legacies of state socialism condemn them either to authoritarianism or to economic backwardness, if not both. Instead, in a little more than the half-decade after the fall of the Berlin Wall, each of the East Central European societies has solidified its democratic institutions and achieved economic growth.

Postsocialist societies can be seen as an extraordinary laboratory to test existing social theories. This book does not formulate such a test — not because the changes examined are not extraordinary but because momentous changes are not likely to leave existing theories intact for simple testing. The efforts of this book are less grandiose than elaborating a new theory of social change and more ambitious than testing old ones. Its task is to craft analytic concepts capable of registering and translating the specific insights and patterned learning being generated in this social experiment.

DIVERSITY

The momentous political, social, and economic changes that have swept through the once-Communist world have provoked some observers to announce the "end of history." The demise of the counter social paradigm, they argue, completes a centuries-long project of modernization and marks a new era of unchallenged dominance of a single logic of social organization. Within this frame of historical homogenization of global sweep, social change in the postsocialist world is best represented as transition, and the major research questions concern the pace and timing of privatization, marketization, and democratization. Comparative questions are matters of degree: To what extent do the political and economic institutions of Eastern Europe and the former Soviet Union conform to or depart from those of advanced liberal democracies?

Comparisons East and West, of course, were not always so constructed.

For decades, capitalism was defined vis-a-vis socialism and vice versa. Their systematic comparison enriched our understanding of both, but the "method of mirrored opposition" is no longer as fruitful.¹ We shall not grasp the postsocialist world through the old dualisms of private/public, market/hierarchy, or capitalism/socialism, regardless of how creatively we search to find complex mixtures in particular cultural settings. The demise of socialism challenges that analytically forced choice, and it offers an opportunity for enriching comparative institutional analysis. When we stop defining capitalism in terms of socialism, we see that, in our epoch, capitalism as a construct is analytically interesting only in the plural: *Capitalisms* must be compared vis-a-vis each other.²

Our contribution to the developing field of comparative capitalisms is to describe and account for the emergence of a distinctively East European capitalism. To understand that specificity is not to highlight what is particular and what is general in the East European variant. Rather than search for the essence of capitalism, of which postsocialism is some particular form, we would do better to start with comparisons to other recent cases where societies have attempted economic and political reforms.³ Several East Asian societies, for example, have embarked on the course of democratization but, unlike Eastern Europe, only after economic reforms had already opened their economies to world markets in a period of an expanding global economy.⁴ In Latin America, economic liberalization and political democratization were undertaken at the same time but, unlike Eastern Europe, economic reforms did not involve a fundamental transformation of property regimes. Even where, as in Brazil and Mexico, economic liberalization led to privatization of state enterprises, these measures took place in settings where the legal, social, and economic institutions of capitalism were well entrenched and social structures were shaped by the dominance of private property.⁵ Despite sharing with Eastern Europe many of the fundamental institutions of state socialism as the starting point, the Chinese experience is, along the two dimensions of property and politics, the polar opposite of postsocialist Eastern Europe, for China has not democratized, nor has it begun the privatization of large public enterprises.⁶ Similarly to Eastern Europe, the societies of the former Soviet Union are attempting to transform both political and property regimes — but with the fundamental difference that these efforts are accompanied by yet another transformation, as these societies must simultaneously cope with the political (domestic and international) problems of creating new states out of the breakup of the imperial structures of the Soviet Union.⁷

These preliminary contrasts foreground the specificity of the simultaneous transformations of politics and property in Eastern Europe and suggest the potential fruitfulness of more systematic comparisons across regions. But

if a full appreciation of the distinctive character of an East European capitalism can be achieved only through comparison to other pertinent cases, comparativists studying postsocialist Eastern Europe face a dilemma: How are we to make that comparison without already understanding the major contours of the various East Central European cases themselves?

Premature comparisons can be more misleading than instructive. To attempt decisive comparisons of the Latin American or East Asian cases with the East European type would falsely assume that scholarship on postsocialist Eastern Europe has already produced a corpus of work yielding sufficient material for comparison. Thus, we focus here on the Eastern European cases themselves, but our investigation is not conducted in isolation from the broader comparative literature. We engage comparativists in other area specialties not only because we reject the idea that East European scholarship can pull itself up by its own bootstraps,⁸ but also because the epochal transformations of the postsocialist world pose new questions and generate new concepts and categories that will be useful for understanding democratic and economic change elsewhere in the world. As the reader will see, throughout this book we unabashedly borrow from and (equally unapologetically) modify analytic tools of comparativists studying Latin America, East Asia, Western Europe, Russia, and China.

As we focus on Eastern Europe, we adopt a comparative method to produce middle-range concepts capable of describing the salient differences among the East Central European cases. It is for the purpose of generating comparative concepts to identify a distinctively East European variant of capitalism, therefore, that we undertake the task of explaining variation *within* Eastern Europe.⁹

Thus, in the following chapters, we adopt a comparative method to highlight similarities and differences in the postsocialist pathways of the East Central European societies, charting the diverse paths of extrication from state socialism, mapping distinctive strategies of privatization, examining national differences in the network patterns of interorganizational ownership in the economic field, and exploring how different institutional configurations in the political field promote or impede policy coherence and authority to pursue sustainable economic reforms.

IMITATION, INVOLUTION, OR INNOVATION?

For many analysts of postsocialism, the task of explaining variation among the East European cases ranks low in their analytic priorities. This holds

especially for neoliberals who portray economic transformation as a project of social imitation. From that perspective, the road to an advanced capitalist economy is the same road, regardless of the starting point, whether that be from Sao Paulo, Singapore, or Slovenia.¹⁰ This *transition as imitation* problematic approaches the postsocialist economies from the standpoint of a future that has already been designated. As the science of the not yet, designer capitalism studies postsocialism in terms of what it will or must become, not simply gazing into the crystal ball of the future but also examining the present through that distorting lens. By contrast, our examination of the postsocialist societies through a comparative lens seeks to understand the ongoing conflicts and alliances that are shaping the multiple possible futures present in contemporary East Central Europe.

If some hold that the postsocialist present is determined by its future (i.e., intelligible only in terms of a predesignated future), others argue that its present is condemned by its past. Whereas neoliberalism sees blueprints for the imitation of market institutions as the road to progress, the contrary view perceives the weight of the socialist past as so heavy that attempts at marketization and democratization become the path to retrogression. One advocate of this view, Michael Burawoy, for example, identifies the post-socialist epoch as a period not of imitation but of "involution." "Within Russia and [to] a lesser extent Eastern Europe," Burawoy argues, combined and uneven development "work through a common overall pattern of industrial involution, that is to say an economic regression that is not merely preparatory for a future resurgence but is chronic and persistent. Involution is the antithesis of evolution and . . . leads to systemic underdevelopment."¹¹ In short, postsocialism is less an imitation of the West than a pathetic self-parody: "Our case study suggests that, with the withering away of the party-state, the Soviet economy, far from collapsing or transforming itself, has assumed an exaggerated version of its former self."¹²

As the phrases *combined and uneven development* and *systemic underdevelopment* suggest, the notion of postsocialist involution bears strong affinities with the dependency theory of the 1970s. Like the *dependistas*, Burawoy looks favorably on the autarchic isolation from world markets that characterized state socialism. But the revitalization of dependency theory for the 1990s cannot retain the earlier suspicion of (if not outright hostility to) markets. For Burawoy, the failures of postsocialism reside less in the opening to world markets or the emergence of domestic markets per se than in the conditions under which they were introduced. Burawoy identifies two such starting conditions, and each can be traced to his understanding of the legacies of state socialism. He notes, first, that all market institutions have their national or regional specificity. In postsocialism, the specificity of mar-

kets is that "their effects are *governed by prior economic organization* based on monopoly, barter, and worker control."¹³ Based on his research in the timber and mining industries, Burawoy indicates how the weight of these legacies of state socialism gives rise to the grossly distorted "markets" and mafialike developments that he sees in the present.

The second culprit explaining involutory regression is the disintegration of the party state and the establishment of liberal democracy. Burawoy develops this argument through a sustained contrast of Russian foolishness in choosing democracy and Chinese wisdom in rejecting it. Whereas in Russia democracy has emasculated the strong state, in China authoritarian rule has kept central controls in place to guide and direct rapid accumulation: "Behind the mutual stimulus of production and exchange lies the Chinese party-state, behind the wanton destruction of Russian industry lies liberal democracy."¹⁴ Contrasts between postsocialist, democratic Hungary and the regime that crushed its nascent democratic movement yield, for Burawoy, a similar conclusion: "Given that in Hungary guarded reform has led to poor performance, China's lesson is not so much one of gradualism but of the *necessity of the party state* to engineer the socialist transition to a market economy."¹⁵

Burawoy's prescriptions follow directly from the idea that the postsocialist present is condemned by its past. Democracy is inadequate to cope with the most important legacy of state socialism - a backward, underdeveloped, and often unruly society that must be tamed, managed, and directed by a party state capable of maintaining and (where necessary) imposing order.¹⁶ To avoid involution in the transition from socialism to capitalism, the best solution is Market Leninism.

As our rhetoric already suggests, we see economic, political, and social change in postsocialist Eastern Europe as neither imitation nor involution. In contrast to the imitationists, who see in the collapse of communism an institutional void waiting to be filled with their recipes, therapies, and formulas, we look to the variation in how communism fell apart and how these partial ruins provide institutional building blocks for political, economic, and social reconstruction.¹⁷ In contrast to the involutionists, who see in the Communist party-state a strong, authoritative agent capable of social engineering, we see the Communist party-state in its final stages as weak and ineffective. As we examine the particularities of how communism collapsed, we see that although the *party-state* disintegrated, the various paths of extrication from socialism in Eastern Europe did not dismantle state institutions so much as re-form them. Democratic institutions did not weaken states, they strengthened them, making them able to carry out the difficult tasks of economic stabilization and later economic transformation

that its communist predecessors were incapable of pursuing. And as we shall see, the more state executives have been constrained by democratic institutions and the more they have been held accountable by deliberative institutions, the more coherent have been their policy courses and the more effective has been their authority to carry out reforms.

In contrast to the imitationists, who see in the present only the absent features of an ideal future, we are interested in what the present holds for the future. In contrast to the involutionists, who see in the present the dead weight of the past, we see that the past can provide institutional resources for change in the present. In contrast to the transition problematic that is common to both, we see social change not as transition from one order to another but as transformation - rearrangements, reconfigurations, and recombinations that yield new interweavings of the multiple social logics that are a modern society.¹⁸ In struggling to cope with the extraordinary uncertainties of a transforming economy, actors discover and reorganize resources. Defying the forced dichotomy of market versus hierarchy, they create new property forms that blur the boundaries of public and private, blur the organizational boundaries of firms, and blur the boundaries of the legitimating principles through which they claim stewardship of economic resources.

Some of these recombinatory organizational innovations will fail. Others, perhaps even those that appear most monstrous from the standpoint of conventional organizational theory, might thrive.¹⁹ Some will prove to be backward-looking strategies conserving the status quo. But we should not be too quick or too confident in our a priori ability to distinguish strategies of survival from strategies of innovation — for, as we shall see, some of the interorganizational property forms that buffer networks of firms from selection pressures, in fact, provide the organizational slack preserving assets in the short run for innovative restructuring in the next round. In short, survival can be the basis of innovation and risk spreading the basis for risk taking. We shall also see that where public policy ignores these network properties and operates only in the categories of state and market, there risk spreading can turn to risk shedding.

Thus, in contrast to the involutionists' theory of past dependency, we analyze processes of path dependency as we explore how strategic choices, often highly contingent, shape further policy courses.²⁰ It is by charting these paths that we can trace innovations - for it is precisely in reworking the institutional materials at hand that actors innovate. In our view, institutions do not simply constrain; they also enable. It is through a political and an economic bricolage that new institutions and new practices emerge.²¹ Our task is to illuminate the ongoing activity, grounded in an organiza-

tional reflexivity and a social pragmatics, whereby actors redefine and recombine resources. This volume documents and analyzes these recombinant strategies.

EXTRICATION, TRANSFORMATION, DELIBERATIVE ASSOCIATION

Our analysis proceeds in three parts. In Part I, we examine the distinctive paths of extrication from state socialism. Part II addresses transformations of property and politics during the formative period of institution building in the first two years following the regime changes of 1989. In Part III, we focus on the new institutions of deliberative association that are emerging in postsocialist East Central Europe.

We begin in Chapter 1 by examining the turning point of 1989 in Eastern Europe. Against the popular misconception that strong states can be toppled only by mobilized societies, we argue that a scenario of weak states confronting weak civil societies more closely approximates the events now known as 1989. But that latter conception can be misleading as well, especially if it leads to static measurements of the relative strengths of hardliners and reformers (inside the regime) and of moderates and radicals (in the opposition). In the alternative, interactionist perspective²² that we propose, illustrated through a detailed analysis of the Hungarian case, the political identities of the major social actors change as they react to and interact with the competing strategies in the political field. Similarly, we challenge *domino effect* explanations by emphasizing the complex interactions among the East European cases. As we shall see, contagion or diffusion models fail to capture how not only citizens but also the old Communist elite learned by observing the processes and outcomes of the interactions of rulers and opposition in other countries. Thus, whereas the conventional view examines differences among the East European cases primarily as differences in the speed and timing of the collapse of the old regimes, we argue that the experiences of these national cases differed not simply in degree but also in kind. This chapter establishes these differing paths of extrication from state socialism — compromise in Poland, capitulation in Czechoslovakia, colonization in the German Democratic Republic (GDR), unfettered electoral competition in Hungary, and restricted electoral competition in Bulgaria and Romania — as a frame for understanding subsequent political and economic developments.

Part II opens with an analysis of the initial debates over privatization in the period during and immediately following the regime changes. The

empirical materials for Chapter 2 are drawn from Hungary, but the terms structuring comparable debates in other countries were the same across the region: foreign versus domestic ownership, state-directed versus spontaneous privatization, institutional versus individual owners, and concentrated versus dispersed ownership. In this chapter, we adopt an unconventional exposition taking the form of a stylized and extended dialogue between contending positions in the actual debate. By presenting persuasive arguments for the various positions back and forth across several rounds along each dimension, we hope the reader will gain a sense of the liveliness and complexity of the debate and will grasp the dilemmas facing policy makers.

Chapter 3 charts the resulting policy choices through a comparative analysis of privatization strategies in Hungary, Poland, the Czech Republic, and the former GDR. The cases are contrasted by locating the respective strategies within a typology constructed along three dimensions reflecting the central questions that must be addressed by any program of privatization: (1) How are the state's assets evaluated? (2) Who can acquire these assets? and (3) With what resources are ownership rights acquired? After analyzing each of the four cases in detail, we trace the differences in privatization strategies across the cases to the distinctive paths of extrication from state socialism identified in Chapter 1.

Part III opens with a critical assessment of the dominant positions in the current debate on economic restructuring. When asked how to restructure the postsocialist economies, neoliberals respond that the best way is to use the free market. An emerging neostatist position (drawing lessons for Eastern Europe from a particular interpretation of East Asian economies) responds that the proper course is to use a strong state. The problem, however, is that the societies of Eastern Europe lack both developed markets and strong states. With what institutional resources might they begin? Our analysis in Chapter 4 suggests that strengthening markets and strengthening states requires recognizing and facilitating institutions of coordination that are neither market nor hierarchy. Building on the pioneering work of Peter Evans²³ (on East Asia and Latin America) and Charles Sabel²⁴ (on Western Europe), we identify the associative (network) properties and the deliberative (discursive) properties of such institutions. That discussion leads us to challenge the widely held assumption that the operative unit of restructuring is the isolated firm. Instead, we pose the dual questions of how networks of firms might be the units to be restructured and how responsibility for carrying out this restructuring might devolve to network institutions of deliberative association.

These questions are addressed concretely in Chapters 5 and 6 as we analyze the emergence of forms of deliberative association in the economic

and political fields, respectively, through systematic comparisons of the Hungarian, Czech, and East German cases. Chapter 5 focuses on the problems of economic interdependence across enterprises as we ask, for each of our cases, whether and how government economic policies recognize the network properties of assets and liabilities. In Germany, we shall see how the Treuhandanstalt learned to cope with a situation in which policies associated with political unification had quickly turned a bundle of enterprise assets into a bundle of liabilities. Yet, because this organizational learning was not augmented by integrated social networks in the economy itself, the efforts of the Treuhand failed to systematically exploit network synergies in economic restructuring. In Hungary, the rich legacy of ties across enterprises in the state socialist period has resulted in dense, extensive, and complex networks of interenterprise ownership to mitigate uncertainty in the postsocialist epoch. Yet official government policy continues to privatize on a purely case-by-case basis. Ignoring the interdependencies among enterprises, it passed a set of legislative measures leading to a wave of bankruptcies and severe financial crises. Having created an unintended market shock, the government then reversed course, bailing out the banks and saving firms in a manner reminiscent of the paternalist state of its socialist predecessor. By contrast, in the Czech case, despite the neoliberal rhetoric of its finance minister and later prime minister, Vaclav Klaus, government policy recognized the network properties of liabilities and assets yielding active antibankruptcy measures, on the one hand, and novel forms of interorganizational ownership, on the other. Our analysis of the different patterns of network ties — with tight coupling in direct enterprise-to-enterprise ties in the Hungarian case and tight coupling at the meso level among banks and investment funds in the Czech case — suggests important differences in the characteristic features of Hungarian and Czech metacorporate groupings and invites comparisons to business groups in East Asian economies such as those of Taiwan and South Korea.²⁵

To explain why economic interdependencies are recognized in some cases while ignored in others and to account for the consequent differences in policy coherence among the cases, we turn in Chapter 6 to institutional features of the political field. In contrast to the conventional wisdom that unconstrained executive authority is more likely to yield coherent reform policies, we argue that state capacity to formulate and implement coherent reform programs can be increased by limitations on the unilateral prerogatives of executive authority. We base that argument on a sustained case comparison of constitutional, institutional, and conjunctural constraints on executive authority in Hungary, Germany, and the Czech Republic. We shall see that whereas in the Czech Republic limitations on executive au-

thority produced more moderated, sustainable reforms, in Hungary concentrated authority gave policy makers free rein to lurch from one extreme policy current to another, each provoking new rounds of crisis. Germany is an intermediate case in which the relatively extreme policy current of the period immediately following unification was moderated after federal and corporatist institutions took root in the new *Länder* of Eastern Germany.

In contrast to the widely held assumption that authority and accountability involve a trade-off, we argue in Chapter 7 that deliberative institutions of extended accountability, through which executives are held accountable by other state institutions and held in check by organized societal actors, actually extend authority to carry out sustainable reforms.²⁶ By extending accountability horizontally, in time and in scope, the embeddedness of the decision-making center in networks of autonomous political institutions extends the time horizons of policy makers and of the public. Success in transformative politics entails a programmatic pragmatism in which the reform politician is doubly bound: bound by the chains of association in the accounts of an encompassing political program and bound by beneficial institutional constraints²⁷ that exert a pragmatic influence on that political vision. Whereas neoliberals advocate the liberation of the market and neostatists call for the liberation of the state, our analysis suggests strategies of de-liberation. To mitigate the possibility that short-term adaptation will undermine long-term adaptability, successful reforms require binding agreements at multiple sites throughout the polity and the economy.

MARKETS, STATES, AND DELIBERATIVE ASSOCIATIONS

EAST MEETS EAST

Liberalism has not abandoned its plans for the liberation of the economies of the once-socialist world, but the thrill is gone. Although only the most naive had promised quick fixes back in 1989 and 1990, no one foresaw that declines in production would be deeper or last longer than during the Great Depression of the interwar years. Although economic recovery started in some of the East Central European countries as early as 1994, the heady heydays are gone, with electorates fatigued by years of reform. New governments in Poland and Hungary promise to keep their ships on the liberal course — but with socialist colors on the mainsails. Elsewhere in the region, the liberal enthusiasm ended almost before it started. If you were marking off the days on Alexander Shatalin's program to create a mature market economy for Russia in "500 days," you could have stopped before you had to sharpen your pencil. Yegor Gaidar's program of shock therapy went up with the smoke billowing from the burning parliament building, and Jeffrey Sachs surrendered hope that his advice would be heeded by the Russian government. The market shock, he argued, was halted before the therapy could take effect and will remain unfinished business so long as the political climate and the will of the Russian leadership fail to match the ambitions of his policy prescriptions.¹

Although the neoliberals are packing their bags, the postsocialist economies will not lack foreign imports: Another group of policy advisers is flying into the region, bringing in their briefcases not lessons from the West but new models from the East. Whereas during the neoliberal heyday con-

sultants commuted directly from Cambridge to Crakow, now it seems that the preferred route reaches Budapest via Beijing, Slovenia via Seoul, and Tallinn via Taipei. If the East European patients (or their international lending agency insurers) were willing to pay for shock therapy, they are likely consumers as well of miracle cures — this time of the East Asian Miracle model.

As the policy winds shift from West to East, the new contingent of policy advisers carries a different message. Free market liberalism, they argue, places its hopes on a self-generating market. But that strategy confuses goals and means. To create markets, one cannot rely on markets. The lesson of the East Asian economies is that to strengthen the market one must first strengthen the state. If the debate was once almost exclusively about the development of capital markets or the relative merits of sequencing currency convertibility before or after price liberalization, the new discourse is about how to establish state institutions with more coherence, capacity, and cohesiveness.² East Asia demonstrates that the challenge for the transition in Eastern Europe is whether and how the state can fulfill its "specific, modernizing role."³ Whereas the neoliberals held a deeply engrained antipathy to the state and were actively committed to its dismantling, the East Asianists see the need in Eastern Europe for "empowering a government bureaucracy."⁴ To compete in the global economy under the current conditions of rapid technological change and capital shortage, "the need for government guidance is much greater than in the past."⁵ Whereas the "Washington consensus" promoted privatization, price liberalization, and trade liberalization, the neostatists draw on the "compelling examples" of the "successful late industrializes" across East Asia to advocate activist state intervention, whether in the form of trade protection ("getting prices wrong"⁶), subsidies, investment credits, and industrial policy⁷ or "public ownership."⁸ "Thus, seeing the East European dilemma through the eyes of the East Asian experience suggests that if economic development is to continue, *dirigisme* cannot die."⁹ Such counsel is not likely to fall on deaf ears in Yeltsin's government in Russia, or in the recently elected socialist governments in Poland, Hungary, and Bulgaria, or in governments in Belorussia, Ukraine, Slovakia, and Albania, where strongmen hold deep convictions about strong states.

The choice seems clear: free markets versus strong states. Each offers a comprehensive package of policy prescriptions to solve the problem of how to restructure the formerly socialist economies while maintaining social peace. For the one, self-generating markets can be the institutions of restructuring that, by creating self-sustaining growth, will solve the social problems of the transition. If and when problems emerge, the solution is

not retreat but more markets. For the other, a transformative state is the only agent with the information and collective intelligence to direct the massive reorganization required where markets are nonexistent or weak at best. Organizationally buffered from societal interests, it alone can act with the cohesiveness needed to guide the process of economic and social transformation. If and when problems emerge, the solution is more buffering, not less, because it is precisely the transformative state's insulated autonomy that gives it the capacity to lead economic restructuring and resolve social tensions.

As our rhetoric suggests, we will argue here for an alternative conception of economic restructuring. The first task is to modulate the oscillation in intellectual trends from hierarchy to market to hierarchy. But it is not sufficient to halt the pendulum at some hypothetically virtuous middle point at which markets would be free enough and states strong enough so that each could fulfill its designated, and mutually correcting, functions. For almost 40 years, reform economists and policy analysts in the region have searched for the golden mean — the correct mix of plan and market, of public and private property. Instead of a better mix, our analysis of the past five years of economic restructuring and privatization in Central Europe suggests that strengthening markets and strengthening states requires recognizing and facilitating institutions of coordination that are neither market nor hierarchy. In this chapter, we identify and elaborate several fundamental characteristics of these institutions: They are associative (with identifiable network properties) and they are deliberative (with identifiable discursive properties). Successful economic restructuring to create self-sustaining growth and self-maintaining social peace can be achieved neither by a transformative state nor by the self-generating market but through the transformative politics¹⁰ of deliberative association.

To make this argument, we begin with an analysis of the lack of autonomy of both states and markets under socialism. State socialism, of course, lacked developed markets, but (and this may surprise some readers) the socialist state also fundamentally lacked autonomy. We then examine how these problems were variously diagnosed, and diverse solutions prescribed, first by early strategies of liberalization, later by a fully articulated liberalism, and finally by the more recent efforts to bring the state back in. Our point of departure in elaborating an alternative strategy of development begins with an assessment of the pathbreaking concept of *embedded autonomy* advanced by Peter Evans. After clarifying the ways in which Evans's concepts must be substantially modified before they can be applied to the East European setting, we outline the major features of deliberative association. As we shall see, in place of calls to liberate the economy or to liberate the state,

our advocacy of deliberation is explicitly de-liberating. But it is not illiberal. New kinds of binding agreements can promote marketization and improve economic performance. Similarly, binding agreements produced in deliberative forums constrain state executives and make them more accountable. But far from weakening the state, they can improve its capacity for formulating and implementing coherent reform programs. In Chapters 5 and 6, we elaborate the concept of deliberative association (for the fields of enterprise restructuring and economic policy, respectively) through sustained comparisons of three East Central European countries.

THE BEHEMOTH AS GULLIVER BOUND

We begin with a problem, paradoxical only on first encounter: The gigantic socialist party-state, exercising centralized control over virtually all productive assets and reserving for itself final judgment in all political, intellectual, cultural, or social questions, fundamentally lacks autonomy. In fact, we can say with little exaggeration that the field of state bureaucracy in general and the political field in particular are the least autonomous fields of activity in late state socialism.¹¹

The East European socialist state did not start out in this predicament, not because it once had autonomy but because autonomy, relative or otherwise, was not a characteristic of any field. During the Stalinist period of the late 1940s and early 1950s, the societies of East Central Europe were dominated by a single logic throughout all spheres. This was the logic of *delegation by usurpation*. Through a primary act of self-delegation, the leaders of the national party-states based their rule on the claim that they alone possessed the "scientific" knowledge ("the laws of motion of history") to guide all social and economic processes.¹² Emphatically, it was not society that delegated such authority - for, according to the logic of usurpatory delegation, in the aftermath of fascism and the Second World War, it was precisely a corrupted, distrusted, and immature society that had to be tamed and trained. The satisfactions of the citizens were literally of no account. Based on its purely transcendental justification, the party-state was accountable only to the future.

Usurpatory delegation was not about interests but about will. And in the pursuit of the general will, the primitive accumulation of political capital was achieved through the physical and symbolic violence of dispossession as the state appropriated all means of production, material and symbolic. The absence of autonomous means of expression precluded particularistic interests, for none could be articulated except in the singularly general form. Absent particularisms, there were no autonomous fields. Just

as the national leaders held authority delegated to them by their Soviet superiors, so, in a chain of delegation, the cadre of the party-state possessed the political capital delegated to them by their hierarchical superiors. This delegated political capital was a peculiar asset (at once singular and completely generalizable), transportable and mobilizable in any setting and universally applicable in any domain. Thus, the concept of autonomous fields was foreign to Stalinist Eastern Europe. This was a peculiarly *representative* polity: The delegate represented the party-state as the embodiment of general interests, and rewards went to those who could loyally disregard any and all particularistic interests. It was, moreover, a peculiarly *competitive* polity: Socioeconomic units at all levels (the brigade, the workshop, the firm, the locality, the region, the branch) competed with each other to demonstrate which could best re-present (make present in a particular setting) the icons and the will of the political elite. In this socialist competition, not prices but prizes were the proof, the sign, and the currency of political credit.

But the period of pure delegation was remarkably short-lived. Key to understanding the shift from totalitarian usurpation to a still far from benign paternalism is the process we might call the *dynamic of the responsables*. In the Communist polity, the typical agenda of a given party body would be organized around the following construction: "Let us hear now the report from the comrade responsible for ..." (followed by some bureaucratically designated category, varying according to the hierarchical level of the party body) "heavy industry," "mining," "Borsod County," "grain procurement," "outlying villages," "bread delivery," "Budapest District 22," "the press," "artists and academics," and so on. In the period of usurpation and commandism, the designated comrade is responsible for *carrying out orders*. But once primitive accumulation is underway, the delegated cadre becomes responsible for *maintaining order* within the domain of his assignment.

This redefined responsibility brings an important shift: To carry out this task, the responsible must become, at least to some extent, responsive. The *responsive responsible* thus begins to say to his or her bureaucratic superiors, "To carry out my responsibilities, I must be able to take local conditions into account." Over time, and the more the responsive responsible becomes a mediator between state and society, these interjections become "To carry out such a task, *we* must take particular conditions into account." Finally, as this mediating role is routinized, the boundary between state and society becomes expressible. Speaking as a messenger from society, the responsive responsible can address the party-state as an abstract entity: "To carry out this goal, *you* must take these particular conditions into account."

We should stress that the responsive responsible does not immediately become a *representative of* particular interests and accountable to them. As a delegate, he or she is accountable to those higher in the hierarchy and, within that accountability, finds room for maneuver: To the local interests he or she says, "See, my hands are tied." To the higher authorities he says, "To do the job, I must be free to take into account local (spatial or domain-specific) circumstances."

To understand the dynamics of the Communist polity, we need an expanded grammar and an altered syntax of the language of political representation. We cannot grasp it with the conventional categories of *interest representation*. Because the responsive responsible is responsible *for* but not responsible *to* the social actors of a particular domain, and because he or she is not authorized to speak on behalf of and in the name of particular social groups, this person does not speak for particular constituencies in the conventional sense. Yet the more decision-making bodies are explicitly composed of such responsables who do not speak *for* but who can speak *of* designated *named places* in the social space, the more these territorial units, social groups, and specific domains become the actual constitutive units of the polity. That is, the elemental unit of the socialist polity is not the citizen, or parties, or organized groups. Precisely because it lacks *constituencies*, its basic *constitutive units* are increasingly particularistic, special interests.

These particularistic trends are exacerbated by the significant shift in the self-proclaimed legitimating principle of paternalist regimes. Whereas Stalinism was based on the explicit rejection of particular *interests*, post-Stalinist paternalism (of which Kadarism was a major variant) enunciated a new legitimation: "We care for you. We take your interests into account." But because these interests were allowed no organized representation independent of the party-state, the only way they could be brought into the polity was through the bureaucracy itself. Where the party-state was once marked by detachment, it now becomes the preeminent institution of incorporation. In this organicist conception, every leading body at any hierarchical level must be composed of those responsible agents who stand in for the particular interests in their respective policy domains. Whereas in the Stalinist period the party was *apart*, in the period of paternalism the party is nothing more than its parts. The more it fears social disruption, the more it wants to incorporate all kinds of interests without allowing their independent representation; and the more it uses its bureaucratic organs to mediate competing claims, so these combine to render more diffused and dispersed its selection criteria.¹³ When the leading bodies increasingly lack leading parts, it becomes unclear what or who or how to adjudicate between

the interests of "balanced growth," "dollar exports," "the solution of the housing crisis," and so on.

The particularistic tendency of the dynamic of the responsive responsibilities interacts, in turn, with a process that we might call the *dynamic of the fields*. The shift from Stalinism to paternalism marks the beginning of the growing autonomization (always relative, never absolute) of various fields of activity within the society. Political loyalty is now not the only way to make a career. In fact, the best way to make a career is to combine political capital with other competencies and credentials. Whereas the party credential, as a form of political capital, was based on an esoteric knowledge that, nonetheless, had an extraordinarily immense scope of potential applicability, now careers could be based on capital with greater asset specificity, that is, by investing in skills that have a more limited applicability in a specific field (e.g., the economy, technology, science, the professions, cultural fields). There is nothing automatic or natural about this process as it is brought into play by actors in particular domains struggling to defend the boundaries of their fields and the criteria of promotion within them. The delegates responsible for these emerging fields are not immediately accountable to them, but to the extent that they begin to make careers even partially *within these fields*, they bring new principles, new accountings, new logics into the decision-making bodies of the state.

Thus, the old political capital of delegation dissipates at exactly the time that more and more claims of ever greater diversity and complexity are flooding the socialist state. At the very moment that other fields all around it are gaining their relative autonomy, the socialist state itself increasingly lacks autonomy. It continues to intervene across all boundaries; but because its own boundaries are so ill defined, it has no specific logic, no coherence, and no clear selection criteria. Like the giant Gulliver, its reach is immense; but the farther it stretches, the greater the possibility that the visible hand will be tied up by multiple particularistic claims. Within its boundaries there is bargaining aplenty; but there are no binding agreements, only a cacophony of rationalizations. It incorporates; but it is not even corporatist, for particular interests are never clearly distinct from the bureaucratic state organs that simultaneously represent and mediate them. Because there is no independent basis for assessing political support, no clear measures of political weight, the state cannot orchestrate concertation but itself becomes disconcerted. Because claims are not aggregated outside the bureaucracy by autonomous organizations that compete to *organize conflicting interests within* political programs, the party-state becomes disaggregated in the process of mediation. The party-state is not embedded in its social environment; it dissolves within it.

LIBERALIZATION AND LIBERALISM: SEVERING THE TIES THAT BIND

LIBERALIZATION

To compound the irony that the project of the all-encompassing party state results in a weakened state with little capacity to provide coherent policy direction we add another: The liberal projects of the 1990s have their antecedents in reform measures devoted to strengthening the state. Liberalization was launched, and then repeatedly refitted and relaunched, in successive waves from the late 1960s to the late 1980s by reformist technocrats within the state. Although one can find early academic proponents of the goal of liberating a market rationality for its own sake (and these voices, although occasionally vacillating, become increasingly vocal across the period), the function of market reforms for state technocrats was less a goal than a means — a means to liberate the state. The diagnosis presented in the preceding section would have come as little surprise to these reformists, for they held the view that it was the long arm of the party-state reaching into every corner of the society and the economy that was the source of the problem. If the visible hand touched less, fewer parasites would enter the body of the party-state. Market reforms were a means to unburden the state. If the state had fewer tasks to perform and fewer interests to mediate, it could perform its remaining tasks better. If, for example, it did not intervene in the microdecisions of enterprises, it would have more capacity for macroeconomic management.¹⁴

Concise, lucid analyses of East European liberalization are available elsewhere.¹⁵ Suffice it to note here that these were always *partial* reforms. Firms were granted limited, never complete, autonomy. Because of this partial character, enterprise directors could always keep one hand in the state's pockets, and state bureaucrats were always ready to "correct distortions." Reforms were not simply stop-go. *Brakes* (the actual term used) were a key feature of reform designs right from the start. With constant shifting of the economic gears, it was like driving a car while stepping on the clutch, brakes, and accelerator at the same time, with a ride that was as noisy as it was jerky. Enterprise directors, moreover, were deeply ambivalent about market reforms. On the one hand, liberalization seemed to promise more room for maneuver. But managers who were skilled at hooking on to the plan, experienced in target bargaining, and adept at reading bureaucratic signals were reluctant to adjust to reading market signals alone. When and where market reforms threatened firms' soft budget constraints (if even only hypothetically), managers recoiled at the possible loss of the ability to shift responsibility upward along the ministerial hierarchies. The liberalizing

technocrats could look to enterprise directors as unreliable allies at best. Indeed, the directors of the large public enterprises joined forces on several occasions to scuttle reform efforts.¹⁶

But liberalization was halfhearted also because the party-state bureaucracy was deeply divided about the course and consequences of marketization. Reforms were promulgated with the hope that marketization would improve economic performance and thus increase the resource base for redistribution by the party-state. But to the extent that market reforms actually took effect and increased the scope of market considerations, these reforms, of course, weakened the salience of measures other than profitability and reduced the importance of other programs, such as regional development or projects of the branch and sectoral ministries in which the state elite had a stake. Above all, reforms weakened the networks running through the large public enterprises that were the elites' principal tie to society. The more enterprises were told to look to profitability, the less they could be counted on to provide the political goods that enterprises had always been expected to deliver. "If enterprises make decisions on the basis of profitability," clamored the responsive responsables in the offices of the county party secretaries, the trade unions, and the branch ministries, "what is to ensure that they will maintain employment levels in my district, or that less profitable consumer goods will be adequately supplied at the same level of prices, or that investment will continue to flow to my region? Automatism might help you technocrats achieve macroeconomic balance, but they cannot be relied on to reduce social tensions. If macroeconomic stability and social stability cannot be harmonized, then what is the point of your economic rationality?" Thus, precisely because it loosened guarantees, weakened the bargaining networks, reduced direct control over the logic of production, and threatened the organizational basis of paternalism, liberalization was everywhere opposed and eventually undermined by entrenched forces within the state bureaucracy who fell back on the political use of the public enterprises.¹⁷

LIBERALISM

If liberalization under state socialism left a legacy of weak markets and weak states, liberalism in the immediate postsocialist period could be defined by the determination not to repeat that mistake. Marketization and economic-rationality had to be ends in themselves. Given the earlier lessons, the task should not be to strengthen the state, but to break its back. The problem of the long arm of the visible hand cannot be solved merely by the state's *withdrawing* its hand from the economy. Voluntary restraints do not eliminate the possibility of involuntary reflexes at a later time. For postsocialist

liberals, the dismantling of the *party-state* would not be a sufficient corrective: The behavior patterns of paternalism were so deeply ingrained throughout the bureaucracy and so widely diffused throughout the society that they were a present danger even with the advent of competitive electoral politics. The state must not simply withdraw its hand, it must be prevented from being able to reach in again.¹⁸

To this end, in addition to the standard policies of price and import liberalizations, the programs of the postsocialist liberal movement included measures to cut off the helping hand. Privatization, for example, was everywhere seen as a means of marketization. But its strategic importance lay in severing the ties of control that ran through state ownership of productive assets. If the ministries were no longer owners, they would lose their principal means of intervening in the affairs of enterprises. In this sense, privatization was a major component of a broader *economic constitutionalism* whose key features were a set of legal measures that prevented the state from interfering in property relations — except in one direction: The state could privatize, but it became constitutionally constrained from renationalization. Similarly, the state was in all matters legally bound to property neutrality: It could not discriminate against firms on the basis of their property form. Through such constitutional constraints, the mix of the mixed economy would be shaped by diffused, dispersed social agents.

But what to do with enterprises awaiting privatization? Here liberal economists and policy makers were initially divided. Some argued that rapid privatization would quickly dispel the problem. When initial public offerings failed to privatize all but a handful of enterprises regionwide, some liberals argued for toleration of spontaneous privatizations as a way of getting property into private hands without getting the state into the business of managing property sales. Others argued against such "wild" privatizations, warning that transactions perceived as illegitimate would weaken the legitimacy of private property. Over time, positions converged on a set of measures that together formed a package to deal with the problem of firms remaining temporarily in state ownership. Its three components were tough bankruptcy laws, an absolute end to all forms of state subsidies, and mandatory *corporatization* of the public enterprises.

The intention of corporatization was to break the strongholds of the branch ministries. Through corporatization, state-owned enterprises are transformed into shareholding or joint stock companies, and title to these shares is transferred to a new "owner" representing the state — a special agency, fund, or new ministry (organizationally separated from the old ministries) with the responsibility to manage the assets and, above all, to privatize them, whether through sales or giveaways. Lest the new owner and

the transformed enterprises fall back into the old paternalist habits, the other two legs of the triad must be introduced promptly and enforced resolutely. Subsidies must be eliminated, with no false hopes of applying for new exemptions; and strict bankruptcy laws should be introduced across the board, preferably modeled on Western accounting norms and judicial practices. Together these policies must send a signal to enterprise management: If you will not or cannot swim in the emerging market, you will sink. When the state hears your siren cry, "Give me a hand, give me your hand," it must be bound to respond not simply that it should not, or that it will not, but that it cannot. Markets can emerge, and quickly - but only if all actors are legally and institutionally constrained to accept that there is no alternative.¹⁹ The surest way to submerge the market is for the state to show any hesitation along the charted course: Markets are the ends *and the means*?⁰ As for restructuring, allow markets to do the work of creative destruction. Regarding unemployment, allow liberated markets to generate growth and jobs. The problem of the unprecedentedly low levels of investment will be solved by capital markets. And the problem of enterprise governance can be coordinated by managerial markets and markets for corporate control.

THE NEOSTATISTS

By 1993, growing disillusionment with the capacities of the market as a mechanism of economic transformation led to a renewed preoccupation with the capacities of the state. The increasingly breathless reporting by *The Economist* about skyrocketing increases in production within the private sector notwithstanding, there was a widespread perception across the region that privatization (whether through privatizing firms by transferring assets or through privatizing the economy by stimulating new private entrants) was moving at a pace far below initial expectations.²¹ Production had plummeted, unemployment had soared, and tax evasion and corruption were pervasive. In the view of the neostatists, marketization was strong enough to produce deleterious side effects but still too weak to ameliorate them. Across the region, liberated markets had unleashed mass demonstrations and strike waves against plant closures, wage cuts, and falling living standards. Free market programs were being rejected by electorates, leading to instability of governments, the growth of populism, and threats to democratic consolidation.²² Bootstrapping, argued the neostatists, could not bring about the liberals' vision of a dramatic escape forward to the domi-

nance of a market rationality. The solution to weak and inadequately functioning markets was not more markets but a stronger, more effective state.

Like the early technocratic reformers of the socialist period, the neostatists of the present share the view that the bureaucracies in Eastern Europe are weak states with only limited capacity to formulate and implement policies. But, in part because of the failures of the earlier reforms, they argue that the state will not grow stronger simply by devolving functions from hierarchies to markets or from the public to the private sector. Increased state capacity is a prerequisite for establishing the conditions for marketization. "For the creation and functioning of the market economy, a strong state is indispensable."²³ Whereas the neoliberals want to cut off the visible hand, the neostatists argue that the lesson of East Asian as well as West European development is that "the transition to capitalism required a more visible hand than neo-liberalism envisioned."²⁴ The postsocialist state, moreover, must not only create markets but also solve (at least in the lengthy transition period) the problems created by them. For these reasons, it is not enough to unburden or downsize the state. It must be redesigned. Proposals typically call for streamlining the administrative apparatus (with clear separation of functions, improved lines of communication, and stricter budgetary accounting), staffed by higher-paid professional bureaucrats trained in new schools of public administration.²⁵

Whereas some neostatists stress the internal redesign of the state, others, especially functionaries and leading executives in the new regimes, advocate its insulation from external influences. Drawing on an ample legacy of authoritarianism in the region, this neostatist conception looks to China²⁶ and Latin America.²⁷ The prescriptions of this *transformative state* model can be described most succinctly as a direct negation of the socialist party-state as the prey of partial interests. State capacity, in this view, is an immediate function of state autonomy. Whereas the party-state was held captive by the networks of bargaining that penetrated the state and crisscrossed its bureaucracies, the transformative state will be autonomous and therefore gain capacity by insulation from these networks. If the weak bureaucracy of the late socialist state failed because it tried to mediate any and all interests, the postsocialist state will be strong to the extent that it can maximally disregard interests. At the core of this state is a team of technocrats, the *change team*, not chosen from within the state bureaucracy but from outside it and now remolding it. This is an engineering state, reshaping itself to reshape the society. The technocratic team is confident about goals, and (with salaries to match) it has the esprit de corps, selection criteria, techniques, and expertise to design the institutions and programs to achieve these goals. Ties to society, as well as connections to party politicians and

even to other parts of the not yet reformed bureaucracy, are always suspect as tainted by interests. Thus, especially in times when such *information* is indistinguishable from the *noise* of social crisis, the bureaucracy must be insulated if it is to issue clear-sighted directives that will solve the pressing problems of transition.²⁸

The representatives of the transformative state model do not share the optimistic assumptions of the liberals about the capacity of liberated markets to (re)generate the political basis of economic reforms via rapid economic growth. In their vision, transformative states have to cope with the problems of being surrounded by social groups with particularistic interests bound to the status quo and ready to resist any change that would threaten their status. The transformative state cannot take into account their interests, they hold, since transformative policies built on the interests of these groups would only reproduce the status quo. So, unlike the free marketeers, who think that there is no need for politics, in the transformative state model there is no place for politics. Instead, it is the strong state's task to impose the necessary transformative policies that allow for the departure from the status quo and the creation of new classes with interests already corresponding to the logic of the market economy.²⁹ From Yeltsin's Russia to Walesa's Poland, neostatists have attempted to establish strong executives with decree powers lacking horizontal and vertical accountability.⁰ The ensuing political crises of these exemplary failures demonstrate that maximizing the capacity to disregard interests falls far short of maximizing the transformative capacity of the state.

THE DEVELOPMENTAL STATE: TIES THAT DO NOT BIND

When asked how to restructure the postsocialist economies, neoliberals respond that the best way is to use the free market. The neostatists respond that the proper course is to use a coherent state. The problem, however, is that the societies of Eastern Europe lack both developed markets and coherent states. The nonexistent starting points of the liberals and the neostatists remind us of the joke in which an Irishman in the far countryside is asked, "What's the best way to get to Dublin?" He thinks for a minute and responds, "Don't start from here."

' The Irishman's irony would not be lost on East Europeans. The *best* ways to get to capitalism started somewhere else. But those options are not available to our contemporary traveling companions. They must start the journey from here. With what institutional resources might they embark?

Postsocialist societies lack strong markets and coherent states, but they have decades of experience with strong networks. Why not start from here?

The postsocialist liberals and transformative statistes are obviously reluctant to adopt such a starting point because a resolute hostility to networks is a defining feature of both perspectives. For the transformative statistes, the old networks of interests are precisely the parasites against which the state must erect a thick wall of insulation, and it is their resuscitation that it must actively suppress. For the liberals, Adam Smith's principled suspicion of combinations provides the guidelines for contemporary policies to prevent networks from making links back to the state that dilute the stance of "no alternatives to the market." Each perspective is so deeply distrustful of associative ties based neither on hierarchy nor on exchange that one can well imagine either one favoring the passage of a postsocialist equivalent of the *Loi le Chapelier*.³¹

If we redefine the question - shifting from "What is the best way to get to capitalism?" to "What resources are available to start from here?" — with what analytic resources might we begin to address the question? For our analytic starting point, we turn to an insightful study on the state and economic development in which Peter Evans persuasively argues for the importance of social networks in shaping the capacity of the *developmental state*.^{*2} Whereas the theorists of the technobureaucratic transformative state conflate state autonomy and state capacity, Evans's major advance (based on a rich comparative analysis of East Asian, African, and Latin American cases) is an analytic separation of the two. For Evans, the autonomy of the developmental state derives not from its insulation from society but from its organizational coherence. The boundaries of the state are clear and well defined not because they are high and thick but because the decisions that are taken within them are governed by a logic that is clear and coherent. Evans's developmental state is autonomous when goals and means are clear: Procedural rationality guides decision making to select policies that should promote economic performance. The autonomy of the state is thus grounded on principles. Such principled autonomy is reproduced by regulating, indeed facilitating, coherent careers within it based on rigorous selection criteria bringing talent into the state and rewarding those who demonstrate that they are accountable to its principles. The developmental state can do many things in many places throughout a given territory and *yet* still maintain the discrete boundaries of an autonomous field because of this dual specificity — the specificity of selection criteria in decision making and the specificity of selection criteria in career making.³³ A coherent logic and a cohesive staff make possible autonomous, coherent, and cohesive policy output.

Evans's analysis, however, does not end with autonomy. Even if his coherently autonomous developmental bureaucrats know what general goals they would like to promote, they still need information. If their decisions would be no better than those of purely private actors, then they would be superfluous; and without good information, they could not make better decisions. To have better information is not simply to have better data: For that, you would not need a developmental state but only a better statistical agency and more clever forecasting. To be ahead of the trends, developmental agencies need more than statistics - they need intelligence. They must acquire situated knowledge - intimate, deeply proprietary knowledge - of present best practices and already-present futures. Autonomy in itself will not yield access to such vivid knowledge.

A merely autonomous state, moreover, cannot ensure policy implementation. Knowledge and its rational processing by talented, ambitious, and uncorruptable officials (in the best Weberian sense of the word) to produce coherent policy will be for naught if policies cannot be implemented. Implementation requires allies, partners in the economy who, far from opposition or neutrality to state policies, will look to the developmental state for guidance and actively facilitate putting policies into practice.

Because better intelligence and active implementation are the keys to state *capacity*, Evans makes a critical analytic distinction between autonomy and capacity and identifies different determinants of each. Whereas state autonomy is based on the state's organizational coherence, state capacity is based on the state's *embeddedness* in its social environment. The developmental state is embedded because it is crisscrossed with social networks that tie it closely and deeply to the economy. For Evans, bureaucrats, even the most coherent and cohesive, are not omniscient; the specific knowledge that they lack is not located within the state but situated in myriad sites throughout the economy. The developmental state must not be an impervious fortress state buffered from the economic elite. Instead, the developmental state is embedded, and its staff is intimately tied to that elite and to its business secrets. Through that mutual interchange, economic elites are privy to the agendas and policy debates within the state, and this knowledge forms a basis of alliances in policy implementation. .

With this notion of embeddedness, we see that Evans turns 180 degrees from the transformative neostatists - for to insulate the state would be to eliminate the source of its capacity. In Evans's conception, the boundaries of the developmental state are not insulated but permeable. Like the membranes of a healthy cell, they allow passage of persons but not of contaminating principles. The embedded state is permeated by the personal ties of the informal networks; but because the internal operations of the state are

immunized by the powerful accountability of its bureaucratic rationality, these are ties that do not bind.

It is Evans's twin concepts, *coherence* and *embeddedness*, that yield significant analytic power. And it is the corresponding twin attributes of *autonomy* and *capacity* that yield a strong, flexible state. Embeddedness increases the state's capacity for access to knowledgeable inputs. Autonomy increases the likelihood of coherent policy outputs. And again, embeddedness increases the state's capacity to realize effective policy implementation.

RETHINKING COHERENCE AND EMBEDDEDNESS

Evans's concept of the developmental state represents a major contribution to the analysis of the state and economic development. In contrast to the liberals, who have pictured the state as the source of the problem in economic development, Evans has convincingly demonstrated that state bureaucracies that are both coherent and embedded can provide the collective good of inducing investment and growth in economies in which otherwise atomized economic elites would not risk investing. Second, in contrast to both the liberals and the neostatists, who have pictured networks as rent-seeking alliances corrupting markets and/or states, Evans has convincingly argued that the network ties in which state bureaucrats are embedded can be a positive contribution to industrial transformation.

However fertile and insightful his concepts, Evans's model should not be uncritically applied to the problems of postsocialist economic development. In the discussion that follows, we indicate how the analytic categories of autonomy/coherence and capacity/embeddedness must be recast to address the specific challenges and opportunities of the East European experience. Reconsidering Evans's model in this light, we question several of his assumptions and propose other analytic dimensions that should have relevance for the study of the state and economic development in a wide range of settings. To anticipate that argument, we first point out Evans's neglect of politics and political parties: By focusing almost solely on characteristics of the field of bureaucratic administration to the neglect of important features of the political field, Evans ignores how political institutions that mediate between state and society can be a fundamental source of policy coherence. Second, we note Evans's neglect of interfirm networks: By focusing almost solely on elite networks that span the boundaries of business and state administration, Evans ignores how business networks in the economy can be a fundamental source of economic restructuring. The element common to

both dimensions of our critique can thus be seen as a call for "bringing society back in" to analyze the politics of economic development.³¹

AUTONOMY/COHERENCE

In identifying the basis for the coherence of an autonomous Weberian state bureaucracy, Evans devotes little attention to politics and its institutions. His neglect of politicians, parties, and other political organizations of interest intermediation is perhaps attributable to specific structural and historical features of his exemplary developmental states. Evans explicitly acknowledges that his positive cases are either authoritarian East Asian states in which politics was excluded or regimes in which "exceptional growth, not just of output but also of real wages" had diminished the need for politics.³⁴ But the problems of economic development in postsocialist societies are taking place in an entirely different historical conjuncture: The recent global wave of democratization has taken place simultaneously with a contraction of the world economy. Expressed in domestic terms, in the postcommunist societies the *extension of political rights* coincides with the dramatic *increase of the social burdens* caused by economic restructuring.

A central question of the political economy of restructuring in our time becomes, therefore, how to create institutions for the mediation, coordination, and concertation of those social and political actors whose interests are threatened by reform policies and who have the capacity to block the implementation and consolidation of reforms.³⁶ In the concluding section of his article (and the final chapter of his book-length treatment of the developmental state), Evans recognizes that there are cases in the new historical conjuncture where both the need for and the possibility of this type of interest intermediation exist. But his proposed solution — "broader embeddedness" that connects the state bureaucracy not only to capital but also to labor and other social groups³⁷ — suggests that the same state bureaucrats who are responsible for carrying out a coherent reform program should also be responsible for aggregating, coordinating, and concerting broadly different group interests.

Our analysis of the late socialist state, by contrast, demonstrated that it is precisely such bureaucratic concertation that results in a disconcerted state and the loss of capacity to pursue coherent policies: A bureaucracy that attempts to mediate societal interests directly will be neither autonomous nor coherent. The lack of autonomy of the weak pre-1989 states in the region resulted much less from the qualities of their bureaucracies than from the deployment of these bureaucracies for the direct mediation of interests.

From our analysis of the "Behemoth as Gulliver Bound" we draw the

fundamental lesson that the coherence of state bureaucracies requires institutions *outside the state bureaucracy* that mediate societal interests. An autonomous bureaucratic field with a distinctive organizational rationality requires an autonomous political field with distinctive selection criteria, career patterns, and forms of capital. In such an autonomous political field, other forms of capital may enter but only one is dominant: demonstration of political support. Because the selection criteria of the political field (in different parlance, the incentive structures of competitive politics) constrain politicians, parties, and organizations to maximize political support, those criteria promote programs that encompass and incorporate broader, even conflicting interests. That is, where mediated by the political field, societal interests do not enter the state administration as fragmented, sectionalized claims that push and pull the bureaucracy hither and yon, but as interests already aggregated, coordinated, and organized into a comprehensive political program. Through this mediating role, an autonomous political field reduces the likelihood of a disconcerted state bureaucracy and increases (although never guarantees) the likelihood that it will receive relatively clear political direction.³⁸ Even where not fully consolidated, competitive politics and its autonomous political capital (votes for programs) give politicians a self-confidence entirely lacking in their late socialist counterparts, thereby increasing their capacity to set coherent goals for state bureaucrats.³⁹ In short, democratic accountability within the political field can facilitate procedurally rational accountability within the bureaucratic field.

As we elaborate more systematically in Chapters 6 and 7 (and demonstrate through sustained case comparisons), policy coherence within the political field is shaped not only by the *vertical accountability* of competitive elections but also by the institutions of *extended accountability*, whereby political authorities are monitored by other state institutions and held accountable by other organized societal actors. Extended accountability produces institutional safeguards that the citizens' "investment" in the political program of the winning party will not be squandered: Intrastate checks and balances, for example, reduce the likelihood of precipitous (and perhaps calamitous) policy swings, and institutionalized deliberations with the representatives of organized societal actors promote some confidence (or at least reduce the uncertainty) that programmatic promises about the distribution of the costs and the potential gains of economic reform can be enforced between elections. In so doing, the politics of inclusion expands the time horizons of the public.⁴⁰

By bringing interests into the state, this transformative politics of inclusion also transforms the transformers. Extended deliberations moderate and pragmatize the programs of political elites: By constraining decision

makers to take into consideration *ex ante* the social and political consequences of their policies, it lengthens their time horizons and, in so doing, increases policy coherence. Thus, in contrast to the insulationist view that the contaminating influence of societal interests will necessarily erode state autonomy, and in contrast to Evans's view that the state bureaucracy can directly mediate these interests without eroding its autonomy, we argue that the mediating institutions of the political field practicing the politics of inclusion are a necessary source of state autonomy. Transcendental visions that short-circuit particularistic interests in the interest of self-generating markets will be undermined by the contentious and conflicting forces unleashed in a society undergoing economic restructuring. Paradoxically, only by taking these societal interests into account — specifically, into the broader, more encompassing accounts of comprehensive political programs bound to multiple institutional channels of public accountability - can state policy be independent of short-term, particularistic interests and pursue coherent, long-term reform strategies.

CAPACITY/EMBEDDEDNESS

Our second criticism addresses Evans's pioneering work on the relationship between embeddedness and the capacity for economic transformation. Our analysis departs from Evans's, however, by shifting from network ties reaching into and out of the developmental state to focus instead on the importance of network ties as coordinating mechanisms out in the economy. In short, it is not only the state bureaucracy but also firms and other economic actors that are embedded in social networks.⁴¹ This extension of the concept of embeddedness is not a peripheral modification but addresses a core feature of Evans's problematic — how to jump-start an economy endangered by the stagnation of low-level equilibrium traps. Because there are circumstances in which the *transformative capacity of social networks* can exceed the transformative capacity of the state (and contemporary Eastern Europe poses such possibilities), we argue that the transformative capacity of an economy is not a direct function of the personal ties of the state bureaucracy reaching out to the business elite but must also include the strength and cohesiveness of social networks in the economy itself.

Evans is seemingly reluctant to acknowledge the importance of social networks among firms and other economic actors. He is, for example, curiously silent about the role of the Japanese *keiretsu*, the South Korean *chaebol*, and the Taiwanese corporate clans even though these interenterprise networks figure prominently in the economies where he finds successful developmental states.^{d2} These lacunae are perhaps attributable to the intel-

lectual origins of the concept of the developmental state. For Gerschenkron and Hirschman, the developmental state must act as a substitute for weakly developed social networks. Evans's summary of his predecessors, in a crucial passage of his study, is instructive:

Gerschenkron's work on late developers complements Weber by focusing on the specific contributions of the state apparatus to overcoming problems created by a disjunction between the scale of economic activity required for development and the effective *scope of existing social networks*. . . . The crux of the problem faced by late developers is that institutions that allow large risks to be spread *across a twide network of capital holders do not exist*, and individual capitalists are neither able nor interested in taking them on. Under these circumstances the state must serve as surrogate entrepreneur. . . . States that succeed in undertaking the tasks that Gerschenkron and Hirschman outline, as well as those set out by Weber, are legitimately called "developmental."⁴³

But what if extensive networks of economic coordination are already in place? We shall argue here (and elaborate in greater detail in our country studies in Chapter 6) that such is the case in many postsocialist economies. Postsocialist economies are newcomers to capitalism, but they are not newcomers to industrialization. Socialism produced a gross caricature of an industrial structure, much of which must be dismantled. But it produced a structure of industrial enterprises nonetheless, much of which can be restructured to perform efficiently and effectively.

Equally important for our purposes here, socialism produced, within that industrial structure, networks of social relations of reciprocity and associative ties. These networks were unintended consequences of the attempt to "scientifically manage" an entire national economy: At the shop-floor level, shortages and supply bottlenecks led to bargaining between supervisors and informal groups; at the level of the second economy, the allocative distortions of central planning reproduced the conditions for networks of predominantly part-time entrepreneurs; and at the managerial level, the task of meeting plan targets produced dense networks of informal ties that cut across enterprises and local organizations. The existence of parallel structures in the informal and interfirm networks that got the job done under socialism means that instead of an institutional vacuum we find routines and practices, organizational forms and social ties, that can become assets, resources, and the basis for credible commitments and coordinated actions.⁴⁴

This second element of our critique of Evans suggests that there are circumstances in which there is no need for a developmental state that *substitutes for absent networks*. But, as the first element of our critique implies, we do not conclude that the state and its coherence are irrelevant for eco-

conomic development. State coherence and capacity are important - but for tasks different from those of the developmental state. Instead of coordinating economic development directly, the state can facilitate coordination in networks that spread risk not at the expense of the public good but in contribution to it. Strong networks are a resource, but they are not unproblematically so. They have the capacity to be agencies of development - or to be rent seekers depleting the public treasury and inhibiting economic growth. Under what conditions can states of relative strength recognize the coordinating capacity of networks of relative strength to unburden the state, thereby strengthening the capacity of the state to facilitate the effective monitoring of these same networks? It is to this problem that we turn.

DELIBERATIVE ASSOCIATION: NETWORKS FOR BINDING AGREEMENTS

East European capitalism is emerging under extraordinary conditions: the simultaneous extension of property rights and of political rights. Any strategy of economic development will be successful only to the extent that it addresses the problems associated with this simultaneity. First, the rapid extension of property rights creates conditions in which property boundaries are obscure, with multiple claimants for the same assets and complex interdependencies of assets across different claimants. Second, the rapid extension of political rights enfranchises the economically less advantaged at exactly the same time that restructuring exacts enormous social costs.

To restate the positions discussed earlier, but now directly in terms of this problematic: Neoliberals argue that marketization will reduce transaction costs, that an immediate clarification of property boundaries through even more rapid privatization (in effect, get the property rights "right") will reduce production costs, and that the two together will make transition costs negligible. Neostatists argue that not the boundaries of property but the boundaries of the state are the problem and the solution: Once these are properly redesigned, thoroughly insulated, or coherently embedded, the state can provide the collective good of inducing investment and growth in economies in which otherwise atomized economic elites would not risk investing.

We argue here for an alternative to the dispersed competition of markets and the hierarchical control of states, one antithetical neither to markets nor to states but that, as we shall see in our case studies, can strengthen both markets and states. This alternative perspective begins with very different assumptions about the twinned problems of property rights and political

rights. Because of the objective interdependencies of assets and the network properties of liabilities, this perspective considers the possibility that fuzzy property boundaries may, in fact, be a workable solution to spread risk in a volatile economic environment with high uncertainty about returns on investment. Similarly, instead of ignoring the enfranchisement of the non-propertied classes (without shares but with stakes) or instead of viewing these as an obstacle to economic development, this perspective endorses a broader expansion of political rights, from participation at the ballot box to participation in negotiations about the disposition of assets and the distribution of liabilities. Bringing actors informed by competing evaluative principles to the negotiating table can contribute to economic development not simply by securing broader support for economic reform (through a reduction of uncertainty about the future) but also by reducing opportunities for rent seeking by opening up these negotiations to public accountability. In short, simultaneity presents opportunities as well as challenges.

Practices that recognize the network properties of liabilities and assets and that bring together in concertation interdependent shareholders, stateholders (i.e., the state as shareholder), and nonshareholding stakeholders we label *deliberative association*. In some cases, the associative or network dimension predominates; in others, the deliberative aspect is stronger. But our analysis of ongoing processes in the contemporary East European societies indicates that successful strategies combine both aspects. Before describing our country cases, we briefly outline the associative and deliberative dimensions of deliberative association.

ASSOCIATION

In the previous section, we noted that strong informal and interfirm networks were an unintended consequence of the contradictions arising from attempts to centrally manage an entire national economy. Some of these network ties dissipate in the transforming postsocialist economic environment; others are strengthened as firms, individuals, banks, local governments, and other economic agents adopt coping strategies to survive; and still others emerge anew as these same actors search for new customers and suppliers, new sources of credits and revenues, and new strategic allies.

These associative ties, we argue, suggest that the basic analytic unit for the study of economic restructuring should not be the isolated firm but networks of firms. As Gerschenkron and Hirschman were already aware, and as economic sociologists have demonstrated across the vast array of modern capitalisms, the actual unit of entrepreneurship is not the aspiring individual personality or the isolated firm but networks of persons and of firms.⁴⁵

With few exceptions, however, the literature on postsocialist property transformation (most of it confined to privatization)⁴⁶ assumes that the *economic unit to be restructured* is the individual enterprise. But the identification of interfirm networks suggests the possibility of policies and practices in which the units to be restructured would not be isolated firms but *networks of firms*. Such an alternative strategy of restructuring would recognize that assets and liabilities have distinctive network properties.

The notion of a liability is, of course, an inherently relational, and hence network, concept: A loan appears as a liability on the books of an enterprise and as an asset on the books of the bank that extended the credit; a purchase contract registers as a scheduled payment for one firm and as a receivable for another. A number of excellent studies have recently alerted the field of postsocialist research to the fact that such dyadic asymmetries are frequently linked in complex and extended chains of debt.⁴⁷ Recognition of the *network properties of liabilities* leads, in our view, to policy implications that are in sharp contrast to the prevailing neoliberal orthodoxy. Because firms exist in networks of close interdependence, reliance on strict market criteria in which struggling firms must be allowed to fail ("each firm for itself, swim or sink") can trigger waves of business failures among their interdependent partners, resulting in a massive devaluation of otherwise well-performing assets. As we shall see in our case studies in the following chapter, this scenario is particularly likely where tough bankruptcy laws are suddenly introduced across the board. In such circumstances, an absolute hardening of budget constraints not only drives poorly performing firms into bankruptcy but can also destroy enterprises that would otherwise be quite capable of making a high-performance adjustment.⁴⁸ Wanton destruction is not creative destruction goes this reasoning, and interenterprise networks might save some of these struggling but capable firms by establishing mechanisms of risk spreading and risk sharing.⁴⁹

Such risk spreading, moreover, can be a basis for risk taking. Extraordinarily high uncertainties of the kind we see now in the postsocialist economies can lead to low levels of investment with perverse strategic complementarities (as when firms forgo investments because they expect a sluggish economy based on the lack of investments by others).⁵⁰ By mitigating the disinclination to invest, risk spreading within affiliative networks might be one means to break out of otherwise low-level equilibrium traps. Firms in the postsocialist transformational crisis are like mountain climbers assaulting a treacherous rock face, and interorganizational networks are the safety ropes lashing them together. Neoliberals who bemoan a retarded bankruptcy rate fail to acknowledge that there might be circumstances in which this Mutual binding is a precondition for attempting a difficult ascent.

This relationship between risk spreading and risk taking suggests that it would be premature in the postsocialist context to impose a rigid dichotomy between strategies of survival and strategies of innovation. Above all, we should not assume that firms will necessarily innovate when survival so seems to dictate, as if necessity in itself creates the conditions for innovation. Recent studies in organizational ecology, for example, provide strong theoretical arguments that firms are more likely to undertake the risky business of innovation (exposing themselves to the *liabilities of newness* by engaging in unfamiliar routines) not when they are pushed to the wall but when they are buffered from the immediate effects of selection mechanisms. These studies further demonstrate that interorganizational networks provide this buffering by producing the requisite organizational slack through which enterprises find the resources that make it possible to innovate.⁵¹ Thus, these studies suggest circumstances in which the simple imperative "Innovate in order to survive" is reasonably reversed: "Survive in order to innovate."

These insights have been independently confirmed in a recent study by Barry Ickes, Randi Ryterman, and Stoyan Tenev,⁵² who demonstrate, on the basis of rich survey data on Russian firms, that enterprises that are linked in interenterprise networks are more likely to engage in various forms of economic restructuring than similar firms that are not so linked. That finding, moreover, is robust: Private enterprises are not more likely to undertake restructuring than firms in state ownership or mixed property arrangements embedded in interenterprise networks.⁵³ In short, when we abandon the forced dichotomy of survival *versus* innovation, we can see that there are circumstances in which survival strategies can be the prelude to strategies of innovation.

A conceptual and policy shift in the unit of restructuring from the isolated enterprise to networks of firms also facilitates recognition of the *network properties of assets*.TM The industrial structure of the socialist economy commonly grouped, within a single enterprise, assets that were incompatible (except within the logic of central planning). Merely breaking up the firm's assets or simply regrouping them within the structure of that enterprise alone precludes potentially fruitful recombinations of assets across a set of firms. Restructuring networks of firms thus opens the possibility of creating more valuable assets in their recombination. This regrouping does not necessarily imply bringing interdependent assets under the common ownership umbrella of a hierarchically organized enterprise. As we shall see, the East European cases provide examples of intercorporate networks that are alternatives to Williamson's dichotomously forced choice between markets and hierarchies. We shall see as well that creative regroupings fail to

respect not only the boundaries between public and private but also the boundaries between the enterprises themselves.

Our emphasis on restructuring networks of firms, taken by itself, might suggest that we favor better industrial policy in which the state should be the dominant agent of restructuring, picking winners and losers. If that were so, we would simply be taking a step backward to join the neostatists. But here we share the view of our liberal colleagues, who question whether state bureaucrats can really possess superior knowledge to make such decisions. We depart from them when we argue that markets are not the only nonhierarchical and decentralized institutions for coordinating economic intelligence. That argument is based on recognizing the distinction between market *orientation* and market *coordination*: A broad variety of institutions of nonmarket coordination are compatible with a high-performance market orientation.⁵⁵ Acknowledging the transformative capacity of social networks in the economy itself, we argue that networks should be the units of restructuring in a *double* sense: Networks of firms should be the units to be restructured *and* considerable responsibility for carrying out this restructuring should devolve to networklike institutions.

In examining the network characteristics of the postsocialist East European economies, our analysis builds on the work of economic sociologists and legal scholars who are studying the East Asian economies from a network-centered approach in which not markets, nor states, nor isolated firms but social networks are the basic units of analysis.⁵⁶ In this perspective, the ability of the East Asian economies to adapt flexibly to changes in world markets rests in the interlocking ties characteristic of corporate groups,⁵⁷ whether these be the patterns of mutual shareholding within the Japanese *keiretsu*, the ties of family ownership within the more vertically integrated South Korean *chaebol*⁹ the social ties of the more horizontally integrated Taiwanese *quanxiqiye* "related enterprises,"⁶⁰ or the dense ties that cross organizational boundaries in the buyer-driven and producer-driven networks in Hong Kong, Singapore, and elsewhere in Southeast Asia.⁶¹ However, we do not look to Eastern Europe to find a Hungarian *keiretsu* or Czech *chaebol*. Instead, we expect to find distinctively East European forms that will differ as much from East Asian variants as the East Asian forms differ from West European capitalisms.

DELIBERATION

During both the state socialist and postsocialist periods, East European experience demonstrated that as long as official policies operate in the dichotomy of markets or hierarchy, associative networks will undermine mar-

kets and states. Lest they remain shady, these networks must be brought out of the shadows of the dominant theories and policies.⁶² Where they are recognized, they can promote productive restructuring and provide a vital source of intelligence about real assets and liabilities, about mobilizable ties among organizations, and about the possible synergies of their locally coordinated projects.

The recognition of network actors in official policies must be accompanied by another recognition: the acknowledgment by local actors of their interdependencies. Because they are interdependent, they can harm each other — or they can create policies, practices, and strategies of mutual benefit. These actors may be firms with complementary assets, or large and small enterprises in a branch, or competing (but potentially cooperating) small firms in a region, or local governments, credit institutions, employees, employers, civic or church organizations, and the like. And the more complex these interdependencies and the more diverse their organizing principles, the less likely the process of reaching agreement will take the form of straightforward bargaining that results in contracts, mergers, or acquisitions. Instead, recognition of complex interdependencies can produce awareness of the need for an institutionalization of *ongoing* negotiations for spreading risk and sharing rewards and costs: The more effective these agreements, the more they change the initial circumstances that gave rise to them and prompt further negotiations.⁶³

Such institutions are deliberative. Their *discursive* aspect can be distinguished from discussions about contracts (e.g., disputes over the terms of an order, such as a bill of exchange) or from discussions within a hierarchy (e.g., disputes over the meaning of an order, such as an imperative command) because they involve negotiations across ordering principles. Deliberations cannot harmonize interests or make them compatible because, if they indeed involve multiple logics, there is no single common principle of equivalence;⁶⁴ but they can promote integration and coordination among competing, coexisting, and diverse evaluative principles and organizational logics. The *recursive* aspect of deliberative association can be distinguished from pacts, which typically involve peak associations constructing one-time stabilizing agreements about the numbers (e.g., wage indexing, levels of investment). Pacts can facilitate more recursive negotiations if and when national-level agreements act as a catalyst to bring together regional and local networks that institutionalize ongoing deliberations.

As those familiar with the work of Philippe Schmitter and Wolfgang Streeck will have already recognized, our notion of deliberative association bears strong affinities to their concept of *associative orders*.^{65*} But our cases (and our concept of negotiation) differ from the advanced industrial de-

mocracies analyzed by Streeck and Schmitter, whose corporative associations are much more formalized - "shaped and constrained by established, licensed, oligopolistic (or even monopolistic) organizational structures."⁶⁶ The actors of Streeck and Schmitter's "organizational concertation" are typically already Associations - formal organizations with licenses, charters, offices, and functionaries. Although they emphasize that identities and interests can be modified in the process of concertation, their actors do enter negotiations with given organizational identities and sharply articulated interests. As we shall see, in Eastern Europe identities and interests are much less clearly defined; in fact, identities and interests often emerge in the process of deliberation.

With this emphasis on emergent identities and interests, our conception of deliberation corresponds more closely to the kinds of processes that Charles Sabel identifies within the institutions he labels *developmental associations*. Sabel explicitly adopts this term, in contrast to that of *developmental state*, because, similar to our own view, no state (regardless of how coherent it is) has knowledge superior to that of economic actors that would justify its intervention to centrally direct economic processes. Moreover, such intervention is unnecessary where strong bonds of affiliation, like those of Sabel's regional developmental associations,⁶⁷ can coordinate restructuring. For Sabel, it is the associations, not the state, that do the developing. The Sabelian state does not direct; it "monitors," acts as a "superintendent," and "sets the rules of economic transactions."⁶⁸ To do so in ways that facilitate rather than impede developmental associations, it must be strong and coherent.⁶⁹

The forms of deliberative association that we identify in Eastern Europe are typically initiated in cases where either states are not as coherent or networks not as cohesive as Sabel's cases of developmental association. This relative weakness presents obstacles to and opportunities for deliberative association in the postsocialist cases. On the one hand, states in Eastern Europe can perceive associative life as relatively weak and use this perception to justify recurrent interventions. And the more these states lack coherence, the more prone they are to interventionism in the first place. Some state sponsorship may be necessary to facilitate deliberative association, but persistent intrusions into associational life can weaken its development. In the worst case, negotiating forums become mere outposts of central state authority, and direct budgetary ties allow responsibility to be once again shifted up a hierarchy.⁷⁰ On the other hand, the fiscal crises of most East European states create circumstances in which many local and regional economic and political actors are left of necessity to search for growth strategies unburdened by central budgetary ties. Where interorganizational networks

form the basis for deliberative association, outcomes can unburden the state not only in fiscal terms but also in the scope of its decision-making requirements. Where they function most effectively, negotiating forums operate with state oversight but not direct intrusion, and deliberative associations develop their own selection criteria to cut losses, identify unrecognized resources, and reallocate and recombine their assets. In the process of such virtuous circles, states *and* associative networks can shift from initial starting positions to gain legitimacy and strength.

Thus, whereas Hirschman's developmental state *disequilibrates*, associative networks and their interdependents can *deliberate* to move beyond the status quo. Whereas the neoliberals advocate freeing markets to liberate the economy and the transformative statist propose insulating the bureaucracy to liberate the state, we examine processes that "de-liberate." It is through deliberations that interdependent actors, learning from each other, can recognize the goals and means that can best serve their distinct and mutual interests. The political task of a reform strategy, it follows, should be not the liberation of the actors of the economic transformation from each other but the encouragement to create institutions of deliberation among them. From country to country in the region we find cases where deliberative association produces binding agreements - sometimes of shorter duration, elsewhere longer-lasting agreements to continuing (re)negotiations. It is these binding ties that can unbind the state and unbind markets.

Although there are no simple formulas, the research findings that we present in Chapters 5 and 6 indicate that deliberative association functions most productively where heterogeneous types of social actors enter negotiations. Homogeneity increases opportunities for collusion and rent seeking. Heterogeneity in itself does not, of course, preclude an expanded circle of collusion, but it improves the chances that deliberations will have some degree of publicity and increases the likelihood of exposing egregious rent seeking. In short, networks monitoring networks increase accountability.

Taking as a theoretical background our discussion of deliberative associations as alternatives to markets and hierarchies, we now turn to examine recent developments in Germany, Hungary, and the Czech Republic. In Chapter 5, we focus on the associative ties of restructuring networks in these postsocialist *economies*, with attention as well to the processes of deliberation within them. In Chapter 6, we focus on the deliberative institutions of extended accountability in the *polities* of our three countries, with attention to the associative ties within them.